
CHAPTER 2. BASIC PROGRAM REQUIREMENTS

- 2-1. ELIGIBLE PROJECTS. This handbook applies to the refinancing of full insurance mortgages, except for hospital projects insured under Section 242 or section 241 supplemental loans for hospital projects, and may not be used in conjunction with coinsured mortgages. Mortgages that were previously coinsured but converted to full insurance and are not HUD-held may be refinanced under these procedures.
- 2-2. MAXIMUM MORTGAGE. The requested mortgage amount may not exceed the lowest of the following:
- A. Ninety percent of the value of the project after completion of repairs, improvements or additions under all Sections of the Act, except Section 223(f) which is limited to 85 percent. For projects involving grants or loans, deduct these grant or loan funds attributable to mortgageable items from the value of the project after completion of repairs or improvements. Multiply this result by 90 percent (or 85 percent), as above.
 - B. The original principal amount of the existing insured mortgage amount.
 - C. The unpaid principal balance of the existing insured mortgage amount plus:
 - 1. cost of required improvements;
 - 2. outstanding debt incurred in connection with capital improvements made to the property that are acceptable to the Field Office; and
 - 3. loan closing charges, including the application fee, inspection fee, financing fee, prepayment penalties, and title and recording and legal fee and required deposits to the reserve for replacements. The cost of defeasance of any existing bond issue may not be included.

The above calculations must be reduced by the amount of any grant or loan funds attributable to mortgageable items.

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- (2-2) D. The amount that can be amortized by 90 percent of net operating income irrespective of mortgagor type (85 percent for Section 223(f) projects).

For cases where the original HUD-insured mortgage will remain intact and a HUD-insured second mortgage will be refinanced under Section 223(a)(7), multiply the net operating income by 90 percent and reduce this result by the annual debt service requirements for the original mortgage. The amount resulting from this computation is available to amortize the Section 223(a)(7) mortgage.

- 2-3. ENVIRONMENTAL REVIEW REQUIREMENTS. There are no environmental review requirements for solely financial transactions. However, for applications proposing any repairs, a limited environmental review and preparation of Form HUD-4128.1 (Compliance and LAC Conditions Record) are required similar to the procedures for Section 223(f) projects.
- 2-4. MORTGAGE TERM. The term of the new mortgage may not exceed the remaining term of the existing mortgage. However, the term may be up to 12 years beyond the term of the existing mortgage if required for project feasibility. The Director of Housing Development, in consultation with the Director of Housing Management, must determine that the longer term is necessary (i.e., without the additional term, the rents will not support the project's expenses) and that the new term does not exceed 75 percent of the project's remaining economic life.
- 2-5. PROCESSING FEE. A fee of \$3.00 per \$1,000 of requested mortgage amount must accompany an application for Section 223(a)(7) mortgage insurance.
- 2-6. MAXIMUM FEES. Financing fees are no longer limited to 1.5 percent. Present day costs and methods associated with the financing and refinancing of mortgages are more complex and varied than when Handbook 4260.1 governing Section 223(a)(7) was originally issued (e.g., discounts, tax-exempt bond financing). Maximum financing fees in Section 223(a)(7) are limited the same as with a refinancing transaction in Section 223(f) - i.e., 3.5 percent which may be included in replacement cost. Total fees in a bond transaction are capped at 5.5 percent. The specific requirements relative to fees are in Handbook 4470.1 REV-2, Mortgage Credit Analysis.

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- 2-7. INSPECTION FEE. If repairs are proposed, collect an inspection fee of \$30 per unit where the cost of repairs is \$3,000 or less per dwelling unit. Collect a fee of 1 percent of the cost of repairs when repair costs are higher than \$3,000 per unit.
- 2-8. PREVAILING WAGE REQUIREMENTS do not apply unless the required repairs meet the definition of substantial rehabilitation (24 CFR Section 207.24(c)). It is not anticipated that this level of repairs will be reached in most Section 223(a)(7) projects.
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